

**REPORT OF THE**  
**Defense Science Board Task Force**  
**ON**  
**Control of Military Excess**  
**and**  
**Surplus Materiel**

**December 1998**



**OFFICE OF THE UNDER SECRETARY OF DEFENSE**  
**FOR ACQUISITION & TECHNOLOGY**  
**WASHINGTON, D.C. 20301-3140**

19990317 038

This report is a product of the Defense Science Board (DSB). The DSB is a Federal Advisory Committee established to provide independent advice to the Secretary of Defense. Statements, opinions, conclusions, and recommendations in this report do not necessarily represent the official position of the Department of Defense.

**This report is unclassified.**

SECURITY CLASSIFICATION OF THIS PAGE

Form Approved  
OMB No. 0704-0188  
Exp. Date: Jun 30, 1986

SECURITY CLASSIFICATION OF THIS PAGE  
UNCLASSIFIED



OFFICE OF THE SECRETARY OF DEFENSE  
3140 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3140

FEB 16 1999

DEFENSE SCIENCE  
BOARD

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (ACQUISITION AND  
TECHNOLOGY)

SUBJECT: Report of the Defense Science Board (DSB) Task Force on  
Control of Military Excess and Surplus Materiel

I am pleased to forward the final report of task force on  
Control of Military Excess and Surplus Materiel. This study was  
co-chaired by Dr. Delores M. Etter and Mr. John M. Stewart. It  
positively responds to the DoD's need to control of disposition  
of such materiel.

The task force has identified six classes of potential  
"leakage" of materiel that require either demilitarization and  
control or both by the DoD. The task force has proposed clear  
and concise recommendations that can be implemented. I concur  
with those recommendations and strongly recommend that you review  
the chairman's letter and forward the study to the SecDef.

A handwritten signature in dark ink, appearing to read "Craig I. Fields", is positioned above the typed name.

Craig I. Fields  
Chairman,  
Defense Science Board



# OFFICE OF THE SECRETARY OF DEFENSE

3140 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3140

DEFENSE SCIENCE  
BOARD

FEB 11 1999

## MEMORANDUM FOR THE CHAIRMAN, DEFENSE SCIENCE BOARD

SUBJECT: Report of the Defense Science Board (DSB) Task Force on Control of Military Excess and Surplus Materiel

Attached is the final report of the task force. The Under Secretary of Defense (Acquisition and Technology) charged this task force to: examine the effectiveness and relevance of related regulatory and statutory guidance; assess the current threat, both domestic and foreign, of this disposal to the public; evaluate the capabilities and shortfalls for identifying and handling items that need control; investigate tradeoffs of different levels of control in terms of cost, the best interest of the public, and the interests of foreign policy. Ammunition, chemical weapons, and nuclear materiel were not within the scope of this study.

DoD identifies and disposes of approximately \$20 billion per year (acquisition value) of military excess/surplus materiel. Most of this materiel is made available to other governmental agencies, eligible donees, or is sold to the public. A small amount, less than 5 percent, is destroyed or rendered unusable for military or para-military purposes through demilitarization.

The United States (U.S.) routinely disposes of weapons and equipment that is very desirable to other nations and transnational groups. Careful demilitarization before sale to the public is essential to protect public safety both in the U.S. and abroad, and to avoid undesirable transfer of technology or military capability.

Weapons and equipment are mainly, but not exclusively, disposed of through the Defense Reutilization and Marketing Service (DRMS), within the Defense Logistics Agency (DLA), which physically and administratively handles disposition. By and large, equipment processed by DRMS is reasonably well-controlled.

Non-DRMS channels comprise approximately 15 percent of the total disposals annually. Materiel, including tanks and aircraft, is given directly to public and private military museums and state and local governments by the Services or General Services Administration. These channels of disposition are less well-controlled, though improving. Excess equipment and materiel also exists at defense contractors where it is directly disposed of in accordance with acquisition contracts. This segment of excess materiel, with minor exception, seems to be controlled reasonably well.

The most worrisome disposition of military equipment lies outside the scope of this Task Force. Hundreds of billions of dollars worth of U.S.-origin military equipment is in the possession of governments around the world. More than \$18 billion annually of Foreign Military Sales (FMS) or Direct Commercial Sales (DCS) are made to other nations. Some of these nations do not share the U.S. concern about disposition, and may have active secondary markets that encourage trans-shipment to other countries. U.S. country teams vary widely in their ability to monitor such equipment. Because of the sheer volume of this equipment outside the boundary of the U.S., it is the sense of this task force that this situation offers greater potential for diversion than the unauthorized sale of undemilitarized surplus DoD equipment. While our evidence is anecdotal and meager, the task force believes that this is likely to be at least as large a source of risk as domestic disposition.

A principal focus of this study was the DRMS. Their demilitarization is performed through more than 100 centers for collection, demilitarization, and sale. Of the \$20 billion total to be disposed of annually, approximately \$4 billion is transferred for use by other Service components, which saves acquisition dollars.

The task force's major recommendations follow:

Simplify the coding system to two or three demilitarization categories. The assignment of code should be biased toward destroying equipment when there is doubt related to national security. Destroying more items reduces the problems posed by undersized investigative staffs, and complicated demilitarization procedures.

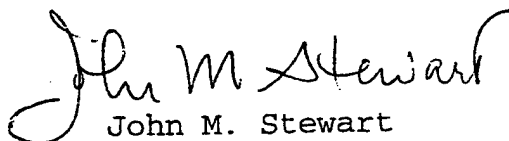
Assign the DLA clear responsibility and authority for all disposition of demilitarization and controlled DoD equipment. Currently, the General Service Administration and other agencies can give military equipment to states or individuals.

Make private possession of major weapons illegal by initiating or requesting changes in laws and statutes.

Initiate a study of FMS and DCS to other countries. Ending a study with a recommendation for another study is not satisfying to this task force, but the magnitude and complexity of the FMS issue, the concerns about transnational groups and the power of weaponry convince us that such an effort is necessary.



Delores M. Etter  
Co-Chair



John M. Stewart  
Co-Chair

# Executive Summary

November, 1998

DOD identifies and disposes of approximately \$20 billion per year (acquisition value) of Military Excess/Surplus Materiel. Most of this materiel is made available to other governmental agencies, eligible donees, or is sold to the public. A small amount, less than 5 percent, is destroyed or rendered unusable for military or para-military purposes through demilitarization.

## TERMS OF REFERENCE

The Under Secretary of Defense (Acquisition and Technology) charged this Task Force to:

- Examine the effectiveness and relevance of related regulatory and statutory guidance;
- Assess the current threat, both domestic and foreign, of this disposal to the public;
- Evaluate the capabilities and shortfalls for identifying and handling items that need control;
- Investigate tradeoffs of different levels of control in terms of cost, the best interest of the public, and the interests of foreign policy.

Ammunition, chemical weapons, and nuclear materiel are not within the scope of this study.

## NATURE OF THE PROBLEM

The U.S. routinely disposes of weapons and equipment that is very desirable to other nations and transnational groups. Careful demilitarization before sale to the public is essential to protect public safety both in the U.S. and abroad, and to avoid undesirable transfer of technology or military capability.

Weapons and equipment are mainly, but not exclusively, disposed of through the Defense Reutilization and Marketing Service (DRMS), within the Defense Logistics Agency (DLA), which physically and administratively handles disposition. By and large, equipment processed by DRMS is reasonably well controlled.

Non-DRMS channels comprise approximately 15 percent of the total disposals annually. The Services or GSA gives materiel, including tanks and aircraft, directly to military museums, and state and local governments. These channels of disposition are less well controlled, though improving. Excess equipment and materiel also exists at defense contractors, where it is directly disposed of in accordance with acquisition contracts. This segment of excess materiel, with minor exception, seems to be controlled reasonably well.

The most worrisome disposition of military equipment lies outside the scope of this Task Force. Hundreds of billions of dollars worth of U.S. - origin military equipment is in the possession of governments around the world. More than \$18 billion annually of Foreign Military Sales (FMS) or direct commercial sales (DCS) are made to other nations. Some of these nations do not share the U.S. concern about disposition, and may have active secondary markets that encourage trans-shipment to other countries. United States country teams vary widely in their ability to monitor such equipment. Because of the sheer volume of this equipment outside the boundary of the United States, it is the sense of this task Force that this situation offers greater potential for diversion than the unauthorized sale of undemilitarized surplus DOD equipment. While our evidence is anecdotal and meager, the Task Force believes that this is likely to be at least as large a source of risk as domestic disposition.

A principal focus of this study was the Defense Reutilization and Marketing Service (DRMS). Their demilitarization is performed through the more than 100 centers for collection, demilitarization, and sale. Of the \$20 billion total to be disposed of annually, approximately \$4 billion is transferred for use by other Service components, which saves acquisition dollars.

Several problems exist in the overall disposal system that we address in detail in this report. Some of the more significant issues follow:

1. It is not currently illegal for individuals to own significant military equipment -- tanks, helicopters, or many other weapons.
2. Disposition issues have low priority during the development phases of most weapons systems. Demilitarization codes, which specify degree of destruction or controls, are assigned early in a program's life, often 20-30 years before the items become excess or surplus.
3. The demilitarization coding system is too complex. There are currently nine categories of demilitarization which include, but are not limited to, total demilitarization, demilitarization of only a key component, control of an item but no demilitarization, and no demilitarization.
4. Some nations, through front companies, may use DRMS sales to illegally acquire usable equipment. In the process, through error, valuable intelligence information and controlled equipment are acquired. U.S. Customs intercepts some equipment at ports of embarkation, but only a small amount is intercepted. Sample evidence suggests a high payoff for increased investment in interception.



5. Investigative staffs in Defense Logistics Agency (DLA), the Federal Bureau of Investigation (FBI), U.S. Customs, Department of Commerce and the Department of Defense (DOD) are small (numbering in the dozens) and are often diverted by more dramatic or urgent investigations.
6. A significant minority of the equipment is relatively new, though declared excess. It is in working order and on average is purchased for 1-3 percent of DOD acquisition value. Nations or groups acquiring this equipment avoid separate development programs or expensive outlays for new equipment.

## **MAJOR RECOMMENDATIONS**

The Task Force's major recommendations follow:

1. Simplify the coding system to two or three demilitarization categories. The assignment of code should be biased toward destroying equipment when there is doubt related to national security. Destroying more items reduces the problems posed by undersized investigative staffs, and complicated demilitarization procedures.
2. Assign DLA clear responsibility and authority for all dispositions of demilitarization and controlled DOD equipment. Currently, the General Service Administration (GSA) and other agencies can give military equipment to states or individuals.
3. Make private possession of significant military equipment illegal, by requesting changes in laws and statutes.
4. Initiate a study of FMS and direct sales to other countries. Ending a study with a recommendation for another study is not satisfying to this Task Force, but the magnitude and complexity of the FMS issue, the concerns about transnational groups and the power of weaponry convince us that such an effort is necessary.

# Table of Contents

Executive Summary	<i>i</i>
Table of Contents	<i>v</i>
Introduction	1
Background	2
Terms of Reference Tasking	3
Briefing Agencies	4
Field Trips	5
Statutes, Policies and Regulations	6
Threat Analysis	9
Sources of Potential Leakage	12
Cost Benefit Analysis	24
Risk Management Analysis	26
Findings/Conclusions	29
Recommendations	44
Appendices	51
Terms of Reference	A-1
Members and Advisors	B-1
Demilitarization Codes	C-1
Acronyms	D-1



***DSB Task Force  
Control of Military Excess/Surplus  
Materiel***

***Final Report  
December 1998***

1



## Background

DOD identifies and disposes of approximately \$20 B (acquisition value) of Military Excess/Surplus Materiel\* each year

- Most is made available to other government agencies, eligible donees, or sold to the public
- Less than 5% is destroyed or rendered unusable for military purposes through demilitarization

*(\* does not include ammunition, small arms weapons, chemical weapons, nuclear weapons, or classified materials)*

2

The DOD disposes of approximately \$20 billion (acquisition value) of excess and surplus material a year. This material includes everything from surplus desks and chairs through full weapon systems. Only five percent is destroyed or rendered unusable through demilitarization procedures and processes. Most is made available to other government agencies, both federal and state. The remainder of the items are then made available for sale to the public.



## Terms of Reference Tasking

- Examine effectiveness and relevance of existing regulatory and statutory guidance for controlling excess/surplus materiel
- Assess the current threat, both domestic and foreign, posed by release of excess/surplus materiel
- Evaluate the capabilities and shortfalls for identifying and handling items that need control or demilitarization
- Investigate trade-off of different levels of control in terms of cost, the best interest of the public, and the interests of foreign policy

3

The Task Force was chartered on June 13, 1997 to examine the control of Munitions List items (MLI), Strategic List items (SLI), and Significant Military Equipment (SME) and provide advice to the Under Secretary of Defense (Acquisition and Technology):

- regarding the effectiveness and relevance of existing regulatory and statutory guidance for controlling excess/surplus materiel;
- assessment of the current threat, both domestic and foreign, posed by release of excess/surplus materiel; and,
- the changes needed in the statutes and regulations implementing current public policy for controlling surplus military materiel

The complete terms of reference are in Appendix A, to this report. The Task Force did not consider ammunition, small arms weapons, chemical weapons, nuclear weapons, or classified materials.

The Task Force (Appendix B) was made up of personnel with academic, business and government backgrounds. They include a former commander of the Defense Reutilization and Marketing Service, senior military personnel with both Logistic and Acquisition experience, former Program Managers of DOD systems, managers from Major Defense contractors, and former DOD civilian leadership.

The Government Advisors to the Task Force offered a wide and diverse experience level. They included representatives for the Departments of State, Treasury, Commerce, and Justice. Senior officials from the individual services, and the Defense Agencies actively participated.



## Briefing Agencies

Departments	Services	Agencies	Commercial
<ul style="list-style-type: none"><li>• State</li><li>• Treasury<ul style="list-style-type: none"><li>• U.S. Customs</li></ul></li><li>• Commerce</li><li>• Justice<ul style="list-style-type: none"><li>• Federal Bureau of Investigation</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Army<ul style="list-style-type: none"><li>• US Army Materiel Command (AMC)</li><li>• Tank and Armaments Command (TACCOM)</li><li>• Center for Military History</li></ul></li><li>• Navy<ul style="list-style-type: none"><li>• NAVSEA</li></ul></li><li>• Air Force<ul style="list-style-type: none"><li>• HQ Air Force Materiel Command</li><li>• San Antonio Air Logistics Center</li></ul></li><li>• Marine Corps</li><li>• Coast Guard</li></ul>	<ul style="list-style-type: none"><li>• Defense Logistics Agency (DLA)</li><li>• Central Intelligence Agency (CIA)</li><li>• General Services Administration (GSA)</li><li>• DOD Inspector General</li><li>• General Accounting Office (GAO)</li><li>• Defense Reutilization and Marketing Service (DRMS)</li><li>• Defense Security Cooperation Agency (DSCA)</li><li>• Defense Contract Audit Agency (DCAA)</li></ul>	<ul style="list-style-type: none"><li>• Helicopter Association of America (HAI)</li><li>• Aerospace Industry Association (AIA)</li><li>• National Association of Aircraft and Communications Suppliers (NAACS)</li></ul>

4

Cabinet departments, military services, defense agencies, and industrial associations briefed the Task Force. Multiple military service offices and personnel assisted the Task Force. The Defense Logistics Agency was the lead agency in providing information and background material.



## Field trips

- Defense Reutilization and Marketing Offices
  - Lakehurst, NJ
  - Ft Meade, MD
  - Colorado Springs, CO
  - Groton, CN
  - San Diego, CA
  - Kelly AFB, TX
- Depots
  - San Antonio Air Logistics Center, Kelly AFB, TX
- Commercial Resale Companies
  - Alamo Aircraft Supply Co., San Antonio, TX
- Industrial Plant Facilities
  - Northrop Grumman, CA

5

Most members of the Task Force made an orientation visit to a Defense Reutilization and Marketing Office in order to understand the infrastructure required by the demilitarization process to prepare equipment for resale or salvage. The following offices were visited: San Diego, CA; Colorado Springs, CO; Lakehurst, NJ; Fort Meade, MD; Groton, CT; and Kelly AFB, TX.

The Task Force also visited the San Antonio Air Logistics Center, Kelly AFB TX, for briefings and report development. While there, the Task Force visited Alamo Aircraft Supply Inc., and met with members of the National Association of Aircraft and Communications Suppliers (NAACS).

Another subgroup visited plant clearance facilities at Northrop Grumman, and talked with Litton and Whittaker Electronics.



## Outline of Report

- **Statutes, Policies and Regulations**
- Threat Analysis
- Sources of Potential Leakage
- Cost Benefit Analysis
- Risk Management Analysis
- Findings / Conclusions
- Recommendations

6





## Nature of Problem

- U.S. routinely disposes of weapons and equipment that are desirable to other nations and transnational groups
- Careful demilitarization is essential to protect public safety and to avoid undesirable transfer of technology or military capability

7

The DOD routinely disposes of materiel and systems that other countries find desirable to support the systems that they have purchased from the U.S. They often find it less expensive to purchase the materiel through disposal channels rather than original equipment manufacturers.

At the same time, the availability of materiel attracts other countries, and potentially transnational organizations to which the U.S. would not want to transfer materiel, in the interest of public safety and national security.

Careful demilitarization is required for some materiel to protect public safety and to avoid undesirable transfer of technology or military capability.



## Statutes, Policies and Regulations

- Multiple Agencies Involved in Control of Excess/Surplus Materiel
  - Defense, Treasury, Commerce, State, Justice, General Services Administration (GSA)
- Major DOD clarifications through DOD directive 2030.8

*No single agency has lead, resulting in overlap and gaps*

8

Many Federal agencies are involved in the disposal and control of demilitarization required property. Each agency has its own internal regulations for the acquisition, use, and disposal of property within that agency. However, there is no central point of authority to address overlaps and gaps in the process. Because the majority of this property is formerly DOD property, and given DOD's inherent responsibility to control the disposition of its property and protect public safety and national security, DOD should take a lead role in the control process.

The recently revised DODD 2030.8 designates DLA as DOD Trade Security Controls (TSC) Program manager, and places some control requirements on recipient organizations. This direction constitutes a good starting point to establishing DOD as the control authority.

Note: The Federal Property and Administrative services Act of 1949, as amended, (the Property Act), and its implementing regulations, the Federal Property Management Regulations (FPMR), is the statutory authority for the disposition of excess and surplus personal property of all executive agencies including the DOD. Internal executive agency directives and regulations must be in compliance with the general guidance in the Property Act and the FPMR. Where appropriate GSA coordinates with DOD in the development of FPMR language on areas of interest to DOD including demilitarization. Upon transfer of personal property from DOD to another executive agency it is no longer DOD property, demilitarization requirements established by DOD are perpetuated if known.



## Outline of Report

- Statutes, Policies and Regulations
- **Threat Analysis**
- Sources of Potential Leakage
- Cost Benefit Analysis
- Risk Management Analysis
- Findings / Conclusions
- Recommendations

9



## Threat Analysis

- Very little quantifiable data obtained on amount of materiel flowing to threats
- Numerous anecdotal examples of equipment getting to threat groups

*Only anecdotal threat data available.*

10

Briefings received provided very little quantifiable data on the amount of materiel flowing to domestic and or foreign threats. The Task Force found that no agency or Department tracks demilitarization as a threat to the U.S.

Enforcement efforts are resource dependent. Activities currently appear to be limited. U.S. Customs inspects less than .01 percent of the shipments out of the U.S. Successful interceptions of materiel indicate that more unauthorized materiel is moving abroad than is statistically reported.

The amount of material being shipped literally prohibits inspection on any significant amount of materiel. However, the Task Force felt a modest increase in additional boarder/ shipping surveillance would be cost effective and likely have a deterrence value.



## Threat Analysis

- Protection of critical/ sensitive technology to avoid technology transfer
  - control needed for state-of-the-art components
  - control needed to prevent migration of legacy systems and parts
- Public safety
  - deny terrorists and rogue states the use of unauthorized military equipment
  - prevent unauthorized acquisition and ownership of military equipment by the general public

*Need to control some items to  
protect technology and for public safety*

11

The Task Force attempted to assess the threat potential of the loss of control of property requiring demilitarization. It received briefings from the Federal Bureau of Investigation (FBI) on the internal U.S. domestic threat, and from the Central Intelligence Agency (CIA), Defense Intelligence Agency (DIA), and the State Department on the external U.S. foreign terrorist threat.

From these briefings it became evident that no single agency/ department, or the collective total, has full appreciation of the potential threat of the loss of control of military items requiring demilitarization. They simply do not keep track of the issue. No one professed to be in-charge, a unique occurrence in Washington, DC!

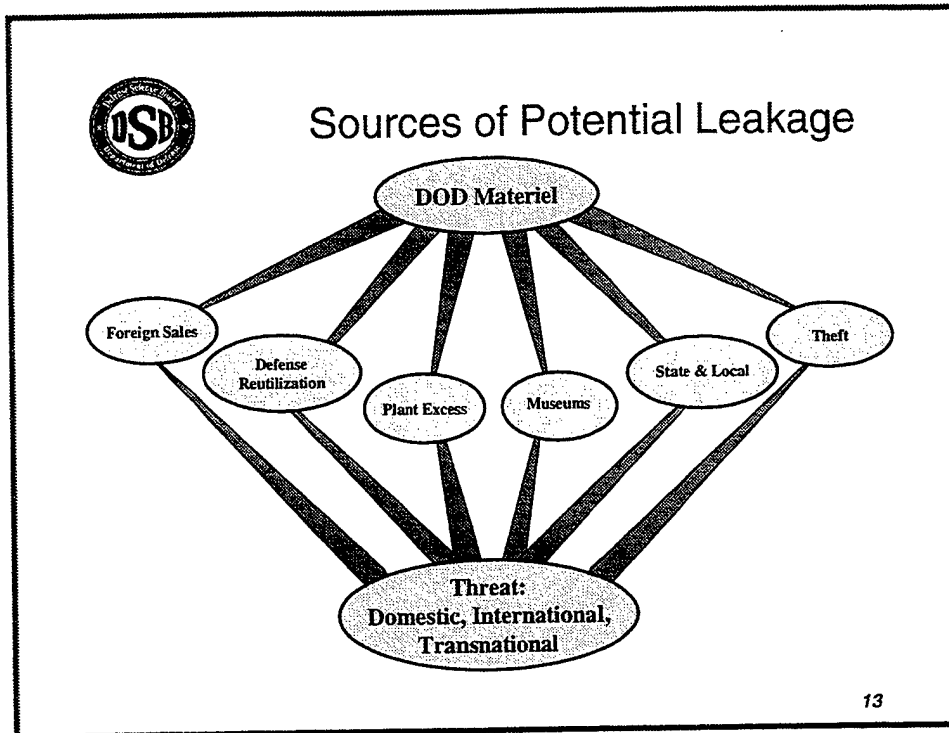
DOD needs to control access to military items to protect its technology lead and to assure public safety. Protection of critical/ sensitive components is for both state-of-the-art items as well as legacy systems. Anecdotal evidence was provided that a legacy system with seemingly little technology may be a state-of-the-art system to a third world nation or a rogue state. Public safety issues address denying access to military hardware/parts, public flying safety from worn-out parts, and the ownership of unauthorized military hardware. Service developers and manufacturers must plan for demilitarization of major systems with life times of 30-50 years.



## Outline of Report

- Statutes, Policies and Regulations
- Threat Analysis
- **Sources of Potential Leakage**
- Cost Benefit Analysis
- Risk Management Analysis
- Findings / Conclusions
- Recommendations

12



The Task Force divided the sources of potential leakage of DOD materiel into six categories. Each "leaks" materiel to some degree, and will be discussed separately.



## Sources of Potential Leakage

### Source

### Controlling Agency

Foreign Sales	State Department/DOD/Industry
Defense Reutilization/Marketing	Defense Logistics Agency
Plant Excess	Industry/ DOD
Museums	Services, GSA
State and Local	States, GSA,DOD*
Theft	Services, DLA

\* P.L. Sec. 1033, Law Enforcement Support Office (LESO)

14

A significant part of the FMS "potential leakage" problem is the "Who is in Charge?" issue. Notice that both the State Department and the DOD have the ability to exercise controls, but the responsibility for tracking equipment usage/ disposal after sale is ill defined. Defense Security Cooperation Agency (DSCA) is responsible for end-use monitoring through the Security Assistance Offices, but State is responsible for investigating and reporting to Congress possible retransfer violations of section 3 of the Arms Export Control Act.

Museums can be separated into DOD Controlled Museums and Other Museums. DOD museums can obtain excess property from DRMOs just like any other DOD activity; they can also acquire non-excess property directly from the military services. Other Museums include public, private, and non-profit museums that can obtain surplus DOD property through donation programs administered by the General Services Administration.

In the case of museums and state/ local donations, the GSA has the authority to handle donations, but lacks the resources to track the equipment after transfer. It is the responsibility of the State Agencies of Surplus Property (SASP) to track, monitor, and perform compliance reviews of property transferred and donated to museums and other eligible recipients of the federal donation programs. GSA through reviews of SASP to include visits to eligible recipients also monitors the use of donated property. The DOD law enforcement support program has adopted the GSA/SASP system of controls and oversight.

The list of controlling agencies shown above simply emphasizes that too many different Government agencies are involved in the "excess/ surplus" business.





## Sources of Potential Leakage: Foreign Sales

### Scope

- Includes items provided to foreign governments through DSAA or direct commercial sales
- 1997 Foreign Military Sales through DSAA --\$8.8 B (Acq. \$)
- Direct commercial sales to foreign governments estimated at \$9 B per year
- DSAA currently managing 15,000 open sales cases -- \$220 B
- Excess Defense Articles (grants) at or near Congressional cap of \$ 320 M per year

***Sales of military equipment to Foreign Governments is a significant potential leakage source.***

15

Sales to foreign governments through Defense Security Cooperation Agency (DSCA), and direct commercial sales represent a significant contribution to our national interest but also constitute a large flow of Munitions List items (MLI), Strategic List Items (SLI), now referred to as Commerce Controlled List items (CCLI), and Significant Military Equipment (SME), out of DOD direct control. This represents potential for leakage to unauthorized parties.

P.L. 104-64 added a chapter 3A, section 40A to the AECA which assigned the responsibility to DSCA to establish a program for the end-use monitoring of defense articles and services sold, leased, or exported under the AECA of FAA. Subsequent regulations established DSCA procedures for implementing this requirement. However, once military equipment is transferred to a foreign government, it is extremely difficult to effectively track the usage or disposal practices. Foreign governments do agree prior to sale to seek USG approval before they retransfer, change the end-use, or dispose of U.S. – origin military equipment. However, without effective tracking and enforcement procedures, these are simply “promises.”



## Potential Leakage: Foreign Sales

### Issues

- Multiple US Government agencies / institutions
  - FMS (DSCA, CINCs, DOS, Congress)
  - Direct Commercial (DOS, Congress, Industry)
- Materiel may return to US markets
  - Some of the recent high visibility media examples are items from this source, (i.e., armaments for cobra helicopter)
- Reliance is primarily on end use/ retransfer agreements
  - Items designated as sensitive have higher degree of protection
- Many obstacles to oversight
  - Limited Security Assistance Officer (SAO) country team resources
  - Nation State sensitivities
  - Volume of transfers

16

Multiple agencies own different portions of the foreign sales process and there is evidence that at least some materiel from this source has reentered the United States and is in public possession.

Oversight reliance is primarily based upon nation-to-nation relationships and formal retransfer agreements. The sheer volume of transfers coupled with limited country team assets makes a high degree of direct oversight extremely difficult and unlikely.

Items transferred through DSCA have a higher likelihood of effective oversight and some designated sensitive items are specifically subject to periodic verification.



## Potential Leakage: Defense Reutilization and Marketing Service (DRMS)

### Scope/ Issues

- Annual DOD property disposal \$20 B (acquisition \$)
- Approximately 20% Reutilized by other services
- Cost of sales \$380 M; Total Sales Income \$280 M
- Number of DRMOs going from 170 to 90
- 15 million items in the inventory
- 5% need demilitarization
- 20% need export control
- Items currently categorized into 9 demilitarization codes

***DRMO system is a large complex system***

17

The Defense Reutilization and Marketing Service (DRMS) was established in 1972 to centralize the disposal of all DOD property, thus releasing each service from this responsibility.

The total number of Defense Reutilization and Marketing Offices (DRMOs) of the DRMS are being reduced from a current number of 170 to a projected 90 sites. Each DRMO receives items from the services. A demilitarization code is associated with each item. There are nine possible codes (described in detail in Appendix C) which range from "no demilitarization required," to "key component need to be removed," to "complete demilitarization required."



## DOD Demilitarization Codes

System	Total Number of items	% of items with no demil	% of items needing control	% of items needing some demil	% of items needing total demil
B-2	9017	85.8	43.8	14.0	8.6
F-16	6333	68.7	18.7	30.6	25.2
C-17	3049	95.2	17.3	4.6	4.4
C-130	2427	96.2	49.0	3.4	3.2
UH-60L	16666	98.2	21.8	1.7	0.4
AH-64A	15527	80.8	17.9	3.0	0.9
MLRS	4448	96.7	8.3	3.3	2.6
Patriot	861	94.5	4.1	1.8	1.8
M1A2	6034	99.0	1.8	1.0	0.7
Total	249172	98.1	5.6	1.8	1.2

(Rows do not add to 100 percent because some items get counted multiple times in the categories)

18

The number of items requiring some form of demilitarization is very small in terms of the total items in a weapons system.

The table above shows the percentage of items that are unique or peculiar to few of the weapon systems of the Air Force and Army. (Note: this is not the total number of items used in each system because it does not include 'common' items that are applicable to other weapon systems. Unique or peculiar items are coded as applying to a single weapon system and are usually managed by the applicable weapon system program manager.)

The table shows the percentage of items that require no demilitarization, that require export control, that require some demilitarization, and that require total demilitarization.



## Potential Leakage: Plant Clearance

### Scope/ Issues

- Government Furnished Equipment (GFE) disposal determined by plant clearance officer
- Commercial Furnished equipment disposal determined by contractor (includes prototypes)
- Majority of material demilitarized on-site
  - 90% destroyed (intellectual property driven)
  - 5% reutilized
  - 5% sold

***Plant clearance not a large leakage source***

19

Contractor user organizations make the determination if materiel, in their respective facilities, is excess/surplus. That determination is primarily driven by development, test, production and logistics requirements. This includes, within a contract, as well as contract to contract. If declared excess, the material is sent to the contractor property disposal area where a reutilization process takes place.



## Potential Leakage: Museums

### Scope/ Issues

- Over 200 museums, air parks, and historical displays DOD-wide
- \$1 B - 2 B (Acq cost) annual volume of donations/ loans
- Inadequate monitoring of existing policies on end-use by museums
- Unclear responsibilities between DOD and GSA
- Improper transfers are highly visible in media

***Museums are potential high leakage point***

20

Since there are many military museums, airparks and historical displays across the country with varying size and scope of exhibition materiel, accurate data was extremely difficult to obtain. It would appear from what we do know that privately owned "museums" have constituted a significant source of leakage of military equipment into improper hands. Numerous incidents of improper transfers have surfaced. Some of these have received highly visible coverage in the media.

Both DOD and GSA loan or donate property to civilian museums. DOD loans or donates to military museums. The Air Force does not donate to museums, but makes short term loans, to either military or civilian museums.

Most problems occur when materiel is transferred or loaned outside the DOD system. Many of the previous problems occurred due to a lack of adequate follow-up.

Two programs operate in this area. There is the DOD museum program based on 10 U.S.C. 2572 and other relevant authorities, which allows military services and museums to donate, loan, and exchange property to non-government activities and private individuals. The second donation program is authorized under the Federal Property and Administrative services Act of 1949, as amended. It provides for the donation of surplus government property, including DOD property to eligible public agencies and non-profit organizations to include public and nonprofit museums for display purposes as specified by Congress.

Museums and State/Local authorities in the U.S. are another serious source of leaks. This source is much smaller than FMS, but when leaks do occur, they tend to become highly visible.



## Potential Leakage: Donations to State and Local Agencies

### Scope/ Issues

- Transfer is mainly off-road equipment
- Quality of control varies, particularly in small jurisdictions
- Some "over-ordering" occurs
- Follow-up and audits are useful

*Donations to state and local agencies are  
not a large source of potential leakage*

21

State and local agencies have access to excess equipment from the DRMOs. The agencies are allowed to select equipment before it becomes available to the general public. As a result, agencies can take advantage of the system. Follow-up and audits should be used to identify, quantify and track these agencies.



## Potential Leakage: Theft

### Scope/ Issues

- Theft of items from the DRMO's and the Service inventories is not a significant problem.

*Theft is not a large source of potential leakage*

22

No specific data was available on theft of items from DRMO's and service inventories. However, discussions with people in these organizations indicated that theft is not a large source of potential leakage.





## Comparative Analysis of Sources of Potential Leakage

<u>Source</u>	<u>\$/Year</u> (Acq Value)	<u>Control</u>	<u>Leakage</u>
Foreign Sales	18B+	Low to Medium	Unknown
Defense Reutilization	20B+	High	Low
Plant Excess	2B+	Medium	Low
Museums	\$1 B+	Low to Medium	Unknown
State & Local	350M	Medium	Low
Theft	Small	High	Low

23

The table above was developed as a basis for comparative analysis of the various sources of potential leakage of critical military materials. The dollar value for each of the sources is listed in terms of the acquisition value of the equipment.

As seen in the table, foreign sales and defense reutilization represent an order of magnitude difference, in terms of total value, compared to all other potential sources of leakage.

The assessment of the level of control and leakage is based on a subjective evaluation by the task force. Relative to all other sources, foreign sales also would appear to have the least amount of control. In terms of leakage, most sources were viewed to have relatively low leakage, with the exception of foreign sales and museums for which the Task Force could not find a basis for comparison.



## Outline of Report

- Statutes, Policies and Regulations
- Threat Analysis
- Sources of Potential Leakage
- **Cost Benefit Analysis**
- Risk Management Analysis
- Findings / Conclusions
- Recommendations

24



## Cost Benefit Analysis: DRMO

● Annual DOD property disposal			
\$20B	Available for disposal at original cost		
\$4B	Reutilization (~20%, based on past experience)		
\$16B	Remaining		
● DOD Sales ('96)			
	Scrap		\$85M
	Other Sales		\$167M
	Net Sales		\$252M
● Cost of sales ('96)			
	Total Expenses		\$380M
	Less 20% for Reutilization Expenses		76M
	Net Cost of Sales		\$304M
● Net return to DOD			
			(\$52M)

***Sales of surplus materials are net loss***

25

The focus of the remainder of the analysis is the DRMS, since that is the system with the largest potential leakage over which the DOD has control.

The overall approach to a cost benefit analysis for the DRMS program is based on analysis of the acquisition value (~\$20B) of the property turned in for disposal, the actual DOD sales (for '96) of \$252M (\$85M scrap and \$167M other sales), and the total cost of sales of \$380M, less 20% estimated for reutilization expenses (\$76M). This yields a negative \$52M on net return to DOD.

Said another way; of the \$20B turn in property value (based on acquisition costs), \$4B is reutilized. The cost to process the remaining equipment is \$304M which in turn results in DOD sales, including scrap, of \$252M (based on '96 figures).



## Outline of Report

- Statutes, Policies and Regulations
- Threat Analysis
- Sources of Potential Leakage
- Cost Benefit Analysis
- **Risk Management Analysis**
- Findings / Conclusions
- Recommendations

26



## DRMO Risk Management Analysis

### Coding

		Destroy	Sell	Assume: Two level DEMILITARIZATION coding
<u>Disposal</u>	Destroy	✓	(\$)	
	Sell	Threat	✓	

***Destroying non-demilitarization items costs dollars;  
Selling demilitarization items increases threat***

27

If we assume two-level coding (sell or destroy), the grid above shows the four possible cases for the DRMS system. If we sell what should be sold, or destroy what should be destroyed, the system is working properly.

If we destroy what should have been sold, we lose money. If we sell what we should have been destroyed, we increase the threat. This suggests that the system should be biased toward destroying more for national security interests.



## Risk management Analysis: Increased Threat Due to Coding Errors

### Economic Impact

DOD development costs to counter new threats  
~50x value of sales

Avoided development cost for adversary  
~50x value of sales

- Net cost due to increased threat = 100x value of sales
- Reduced development time closes technology gap
  - U.S.. technological advantage at risk
- Whether threat risk is 100:1 or 10:1
  - When in doubt - destroy rather than sell

***Argues for Simplification of Demilitarization Process***

28

To simplify the risk management analysis due to errors in demilitarization coding, two assumptions are made:

- DEMIL coding errors result in \$16M of equipment that either should have been demilitarized or sold
- A two level code is used for DEMIL coding, e.g., destroy or sell.

The interesting cases are when property is destroyed that could have been sold; resulting in \$16M of lost sales, and when property is sold that should have been destroyed. This latter case is defined as a potential threat since the equipment may end up in the hands of U.S. adversaries. The loss due to the threat is two fold:

- The adversary avoids the cost of development, and, since the value of non scrap sales is estimated at 2% of the acquisition cost, this results in 50x net gain in cost ( $50 \times \$16M = \$800M$ ) and a significant reduction in development time.
- The U.S. must counter the threat posed by the acquired capability; at a cost of \$800M if the counter threat is equal to the value of the equipment acquired by the adversary (a 1:1 exchange ratio).

The threat risk due to DEMIL errors is 100:1, a \$16M error in DEMIL sales leads to a combined a loss of \$1.6B (the adversary avoids a \$800M development cost and the U.S. must provide a counter threat of equal value).

The net result of the cost benefit and risk management analyses is an economic impact of 100x the value of sales based on 2% sales return on acquisition costs, avoided development costs for adversaries and increased U.S. costs to counter the capability acquired by adversaries. In addition, the reduced development time for adversaries not only closes the technology gap but also puts the U.S. technological advantage at risk. The increased threat due to DEMIL coding errors argues for further simplification of the DEMIL coding process and emphasis on reducing the threat by complete destruction of surplus/obsolete equipment rather than increasing sales.



## Outline of Report

- Statutes, Policies and Regulations
- Threat Analysis
- Sources of Potential Leakage
- Cost Benefit Analysis
- Risk Management Analysis
- **Findings / Conclusions**
- Recommendations

29



## Findings/Conclusions: Defense Reutilization Strategy



- Need to balance national security vs. sales
- Decisions on weapons, ammunition and furniture are easy
- C3, surveillance and other systems are more difficult

***Strategy should favor National Security***

30

Defense reutilization strategy should balance protecting national security with recovering funds from sales of military surplus equipment. To maximize national security the approach might be to destroy everything at a cost of \$300M-600M per year (DRMS expenses + additional DEMIL costs + lost sales). To maximize sales the approach would be sell as much as possible. The DEMIL strategy is designed to achieve a balance between these two extremes. Decisions on some items such as weapons systems, ammunition and furniture are easy. However, decisions on C3, surveillance and other systems are more difficult. This is further complicated by the fact that many systems employ commercial or off the shelf equivalent components, and due to technology obsolescence, what was once high tech becomes standard. In addition threats change, high technology cold war threats have been replaced by low technology proliferated threats.

Complex strategies are difficult to implement. Errors due to coding/disposal complexity lead to sales, which may result in subsequent gains to adversaries who avoid equipment development costs and time delays and hence pose increased threats to U.S. national security.





## Findings/Conclusions: Statute, Regulatory and Policy

- DOD should adopt an underlying "birth to death" principle:

DOD must remain responsible for the proper disposition of all MLI, CCLI and SME originated by the DOD regardless of sale, transfer or other disposal actions by DOD or other entities.

31

Multiple agencies are involved in the control of excess/surplus material e.g. defense, treasury, justice, state, and commerce (State is responsible for direct commercial sales transfers. Commerce is the responsible for CCLI.)

No single agency has the lead which results in overlaps and gaps in control of military material, To minimize the threat to national security due to leakage of military equipment it is recommended that the DOD adopt an underlying birth to death principle:

- DOD must remain responsible for the proper disposition of all Munitions List items (MLI), Strategic List Items (SLI), now referred to as Commerce Controlled List items (CCLI), and Significant Military Equipment (SME) originated by the DOD, regardless of sale, transfer or other disposal actions by DOD or other entities.

The adoption of such a principle combined with the following recommendation that DOD be given final decision authority for all demilitarization and controlled items will minimize current overlaps and gaps in control of military material. Clearly, responsibility and decision authority should go together.



## Findings/Conclusions: Statute, Regulation, and Policy

- DOD should be final decision authority for all DOD demilitarization and controlled items, and thus should:
  - Negotiate a Memorandum of Understanding with GSA giving DOD final approval for distribution of demilitarization and controlled items,
  - or,
  - Initiate legislation to establish DOD decision authority for all demilitarization and controlled items. Non-DOD agencies could then continue to distribute excess materiel with DOD approval of demilitarization and controlled items

32

The decision process for demilitarization and controlled items needs to be centralized into one decision authority in order for the overall system to work effectively. This requires that GSA relinquish (either through a memorandum of understanding or through legislation) its current decision authority for demilitarization and controlled items.

The GSA disagrees with this recommendation that DOD should be the final decision authority for all demilitarization and controlled items and that GSA relinquish their current decision authority.



## Findings/Conclusions: Statute, Regulatory and Policy

- DOD should initiate legislation to make possession of military demilitarization items not covered under existing law illegal.
- DLA should reallocate some of its assets to
  - Increase DLA investigative force
  - Fund cooperative DOD /Customs Service task force inspection for illegal exports of critical military items
- Realistically, it is not feasible to assume investigative staffs (DLA, FBI, Customs, ...) can be effective in stopping or even measuring this flow without considerable budget increases

33

To deter the flow of critical military equipment to adversaries and terrorists it is recommended that the DOD should initiate legislation to make possession of military demilitarization items, not covered under existing law, illegal. (i.e., 10 United States Code (USC) 2572 authorizes the Secretary of a Military Department permission to lend, give or exchange for historical, ceremonial or display purposes, without expense to the United States, books, manuscripts, works of art, drawings, plans, models, and condemned or obsolete combat materiel that is not needed by that department.)

In addition, it is recommended that the Defense Logistics Agency should reallocate resources to increase the DLA investigative force. This increase in investigative personnel combined with new laws to make possession of military demilitarization items illegal should provide a significant improvement in deterring the illegal flow of military equipment. As a third component of the enforcement process it is recommended that DLA fund cooperative DOD/Customs Service task force inspection of illegal exports for critical military items.



## Findings/Conclusions: Policy Implementation and Oversight

- DOD should accelerate implementation of DOD directive 2030.8 which appropriately designates DLA as program manager for policy implementation and oversight of the DOD demilitarization process

34

The current DOD Directive 2030.8 appropriately designates DLA as program manager for policy implementation and oversight of the DOD demilitarization process, including a major portion of demilitarization activities through the Defense Reutilization and Marketing Service (DRMS). Additionally the directive delegates to the service components the assignment of correct demilitarization codes for all managed items, including an annual audit of at least 20 percent of all managed items including new items.

It is the Task Forces' position that this DOD Directive provides the appropriate assignment of responsibilities in order to most effectively prosecute the demilitarization process, without building a centralized staff to perform demilitarization functions. This Directive:

- delegates assignment of demilitarization codes to services and contractors, who are the subject matter experts
- continues annual audit of 20% of all items or some reexamination system to ensure 100% in a reasonable time
- centralizes authority and information repository, but does not build a centralized staff

DLA has the capability in place with its centralized catalog system to execute such over-watch / control without adding a costly new staff organization.



## Findings/Conclusions: Sales to Foreign Governments

- Sales to foreign governments may be largest source of potential leakage
- Many obstacles to oversight
  - Limited resources to monitor end use/ retransfer agreements
  - Nation State sensitivities
  - Large volume of transfers

***Potential Source for Growing Transnational Threat***

35

The high sales volume of material to foreign governments when measured against the opportunity for oversight controls makes this source one of growing concern. The proliferation of non-state terrorist groups, and the potential for relatively sudden changes in political leadership in some of the post cold war set of nations magnifies these concerns.



## Findings/Conclusions: Foreign Military Sales

- DOD should champion a comprehensive multi-agency review of the process for monitoring end use/retransfer agreements
- DOD should investigate tagging technologies for use with key items in foreign military sales

36

In line with the tenet that DOD must retain responsibility for all MLI, CCLI, and SME originated by the Department, a multi-agency review of the Foreign Military Sales program seems prudent and DOD should champion this effort.

State-of-the-art technologies are available that have the potential to improve the tracking and monitoring of significant items that have been sold to foreign countries. The DOD should investigate the use of existing technologies and support for research of additional technologies for tracking/ tagging.



## Findings/Conclusions: Defense Reutilization and Marketing Service

- Disposition issues have low priority during development phases of new systems, which are when demilitarization codes are assigned
- Demilitarization code processing and execution is getting better but it is still too complicated
- There are a lack of laws and resources to support enforcement and retrieve materiel
- Inconsistency in application of rules for resale causes problems

***Overly complex system gives inconsistent results***

37

Trade associations such as the National Association of Aircraft and Communications Suppliers (NAACS), and their individual members, expressed deep concern over the inconsistency in the coding process on what needs to be demilitarized, controlled etc. They repeatedly expressed frustration with decisions to demilitarize materiel that they felt should have been sold, so that they could have the opportunity for re-selling the materiel. They also expressed concern with demilitarization of materiel with commercial stock numbers.

DLA and the Services must be sensitive to the business groups that exist for used materiel. Therefore demilitarization should be realistic in order to assure security but not unnecessarily destroy safe useable parts. DLA should however, have a "default" system that says, "When in doubt concerning demilitarization -- fully demilitarize."



## Findings/Conclusions: Defense Reutilization and Marketing System

- Incorrect demilitarization has serious consequences
- Poses safety risk to general public
- Adversaries avoid time and \$ for development programs for new capabilities
- Poses threat to U.S. technological edge

38

Incorrect demilitarization can be as dangerous as no demilitarization. If done improperly where it can be corrected or easily bypassed then it might as well have not been done. It can pose a safety risk.

Adversaries want to obtain military equipment for intelligence exploitation, and to bypass technology development efforts and costs. Either advances their interests and is detrimental to U.S. interests. Either decreases our military edge.

The materiel being disposed of is not all "old" technology.





## Findings/Conclusions: Implementation of Demilitarization System

- Defense Logistics Agency should simplify demilitarization codes:
  - Err on the side of demilitarization more vs less
  - Reduce number of codes to small number (2-4)
  - Eliminate code "c" which requires only key component demilitarization
  - Establish a default process to move any item in doubt to full demilitarization
  - Don't demilitarization non-significant military equipment items

39

DLA should move to further simplify the coding process, but with the proviso that the system will err on the side of demilitarization, rather than take the chance of materiel escaping the system.

Items that match commercially available items should not be demilitarized. An appeal process with swift resolution needs to be instituted.



## Findings/Conclusions: Implementation of Demilitarization System

- Defense Logistics Agency should designate a limited number of DRMO centers for specialized demilitarization
- Defense Logistics Agency should incorporate demilitarization specifications in commercial contracts to cover prototypes, pre-production items, and production overruns.

40

DLA / DRMS has good planning ongoing to properly consolidate the demilitarization function at fewer sites with greater expertise. This action should be encouraged and DRMS should be properly funded to expedite this action.

Such a consolidation would make a prompt demilitarization decision appeal process workable, for commercial firms.

The Defense Contract Management Command (DCMC) is part of DLA. DLA should direct DCMC to take action to assure demilitarization specifications in all commercial contracts to cover identified items.



## Findings/Conclusions: Plant Excess

- Prototypes and systems not selected for production may slip out through plant clearance.
  - Guidance for Plant Clearance Officers should include more focus on monitoring of prototypes and systems not selected for production, due to state-of-art components
  - Intellectual property drives most destruction
- Plant sensitivity to equipment storage costs for excess inventory also results in disposal

41

Plant Clearance is judged to be more a potential source of leakage than a real source. There are two main concerns. Prototypes and systems not selected for production may have state-of-the-art systems or components that should be controlled and/or demilitarized, prior to disposal. They may also possess significant intellectual property that the company wants to protect from competitors.

The second concern that leads to Plant Clearance is the need by a company to reduce inventory maintenance costs for systems and materials that are deemed extra or not needed for current programs or future efforts.



## Findings/Conclusions : Museums

- Several highly publicized examples of leakage
- Lack of centralized authority complicates the process (Services, DOD, GSA)
- Process now well covered within DOD by updated regulations, policies, manuals, etc.
- Systems within services improving significantly
- GSA controls and policies still quite "loose"
- Monitoring continues as a problem

42

Since several examples of leakage through various museum entities received wide notoriety in the national media, the Service components of DOD have tightened up their systems to control and monitor the providing of military equipment to museums. Regulations and policies have been updated to strengthen control and monitoring procedures; including providing specific and stringent definitions as to what really constitutes a bona fide museum. The GSA, however, still has very generous guidelines in this respect. \*

It is the panel's impression, from the limited exposure we had to the GSA system of controls, that it needs considerable improvement. It is our understanding that the GSA plans to work with the DOD in moving ahead to improve their process.

No single authority or department of the Government has overall controlling authority over this area.

\*GSA takes exception to statement about their donations to museums.



## Findings/Conclusions: State and Local Donations, Theft

- The control of donations to state and local agencies appears to be reasonable to protect excess and surplus military equipment.
- The amount of theft from the DRMO facilities does not appear to provide a significant source of excess and surplus military equipment.

43

Donations of excess and surplus materiel to state and local agencies appear to be reasonable and prudent. The only area of concern that was noted was the acquisition of high value helicopters and helicopter parts by state and local jurisdictions. Some agencies have developed highly tuned systems to detect, track and acquire such systems and parts from DRMS. Subsequent disposal of such systems and parts by the state and local agencies appears to be in compliance with existing disposal rules and regulations.

Theft of material is not a major problem; however when it does occur, it usually involves high value and weapons related items that tend to make news.



## Outline of Report

- Statutes, Policies and Regulations
- Threat Analysis
- Sources of Potential Leakage
- Cost Benefit Analysis
- Findings / Conclusions
- **Recommendations**

44



## Major Recommendations

### **1 Simplify demilitarization coding system**

- Use 2 or 3 codes (perhaps only sell as is or demilitarization)
- Controlling items is not feasible so demilitarize instead
- Assignment should be biased toward destroying equipment when in doubt due to public safety and national security
- Simplification will reduce errors in assigning codes and promote consistency in implementation of demilitarization requirements

45

The DOD should simplify the demilitarization code process to a 2-3 code system. Analysis of coding on 9 major weapon systems shows that only a very small percentage requires demilitarization. It also shows that some codes are not used or hardly used. Items needing control should be demilitarized. Likewise, items with a single or just a few components could be demilitarized. The system should be biased to demilitarization in the interests of national security.

At the same time, items that are clearly not significant military equipment should not be demilitarized. Correlation of military and commercial parts catalogs shows that many parts are the same, and literally just differ by a digit in the part number, seemingly more for government accounting rules, than parts distinction. Such cases need to be resolved, through a quick appeal process.



## Major Recommendations

### **2 Assign DLA clear responsibility for the disposition of all DOD demilitarization and controlled equipment**

- a Developing acquisition organization should do initial assignment of demilitarization codes
- b Code Assignment should be part of exit criteria for the appropriate milestone
- c DLA should handle final disposition of all demilitarization and controlled DOD equipment (this requires policy changes relative to Service and GSA)

46

DLA needs to be assigned clear and unequivocal responsibility for the disposition of all DOD materiel that requires control or demilitarization. Clear lines of responsibility between DLA, the Services, and GSA must be established.

Assignment of demilitarization codes must be made an exit criterion on acquisition milestones. Simplifying the system to 2-3 codes will reduce the overhead of this recommendation.





## Major Recommendations

### **3** *Initiate legislation to make illegal private possession of items requiring demilitarization*

- Need to be able to retrieve items whether sold by DRMS in error or purchased from other people/countries

47

DOD should initiate legislation to make private possession of items requiring demilitarization illegal and set procedures for the recovery of such materiel and or items. At the current time the DOD has no recourse for the recovery of material that has been obtained by whatever means. There is evidence that FMS material that would require demilitarization has been returned to the U.S. and sold to private citizens.

There is currently no legal way to recover such materiel.



## Major Recommendations

**4 Initiate a study on the control of items sold through Foreign Military Sales and other direct sales/gifts to foreign countries**

- Study should address technology transfer
- Study should consider possible avenues for transnationals to obtain equipment with significant threat to U.S. public and military
- Study should recognize issues of nation state sensitivities

48

FMS sales are viewed as a potential major leak of materiel. A separate study of the security aspects of FMS needs to be accomplished. Such an effort was beyond the purview of this study.



## Summary of Recommendations

- ① Simplify the demilitarization coding system**
- ② Assign DLA clear responsibility for the disposition of all DOD demilitarization and controlled equipment**
- ③ Initiate legislation to make illegal private possession of items requiring demilitarization**
- ④ Initiate a study on the control of items sold through Foreign Military Sales and other direct sales/gifts to foreign countries**

49

The coding process needs to be simplified. There is no need for 9 classifications, when 2-3 would suffice. Such a system would default to a demilitarization decision and increase national security interests.

DLA should be clearly made responsible for the disposition of all materiel needing control or demilitarization that is procured by the DOD.

Laws and Statutes need to be revised to make it illegal for private citizens to own significant military equipment. Clear authority to seize such materiel needs to be established.

A further study of Foreign Military Sales and direct sales to other nations must be undertaken. Ending a study with the recommendation for another study is not satisfying to this Task Force, but the magnitude and complexity of the FMS issue, and the concerns about sub-national groups gaining access to powerful weapons convince us that such an effort is necessary.

## **Appendices**

**Appendix A: Terms of Reference**

**Appendix B: Members and Advisors**

**Appendix C: Demilitarization Code Summary**

**Appendix D: Acronyms**

# Appendix A



DEFENSE SCIENCE  
BOARD

## OFFICE OF THE SECRETARY OF DEFENSE

3140 DEFENSE PENTAGON

WASHINGTON, DC 20301-3140

Jun 13, 1998

### MEMORANDUM FOR CHAIRMAN, DEFENSE SCIENCE BOARD

SUBJECT: Terms of Reference -- Defense Science Board Task Force on  
Control of Military Excess/Surplus Materiel

You are requested to form a Defense Science Board (DSB) Task Force on Department of Defense (DOD) control of Munitions List Items (MLI), Strategic List Items (SLI) and Significant Military Equipment (SME) to provide advice to the Under Secretary of Defense for Acquisition and Technology regarding:

- Effectiveness and relevance of current export controls over military materiel in the post cold-war environment;
- Assessment of the current threat, both domestic and foreign, posed by release of surplus military materiel;
- Changes needed in the statutes and regulations implementing current public policy for controlling surplus military materiel;

In performing its review, the Task Force should address the full range of issues that need to be covered in a public policy regarding access to defense materiel. In addition to the points above, the Task Force should address how the various Federal Agencies should exercise responsibilities for implementing any policy recommendations made.

For example, today's export control program for DOD surplus materiel relies heavily on control at the source, with relatively limited resources applied at export locations. At the same time, domestic purchase and ownership of undemilitarized materiel that cannot legally be exported without permits are entirely permissible.

In developing its findings and recommendations, the Task Force should:

- Examine existing regulatory and statutory guidance in support of controls, DOD Demilitarization policy, and private sector possession of DOD surplus materiel.

- Investigate the framework, which defines MLI/SLI and SME, and evaluate the capabilities and shortfalls for identifying and controlling them.
- Investigate concepts for analysis and execution of the control of DOD surplus materiel in a post cold-war environment focusing on trade-off analysis of different levels of control. Consider cost, affordability, the best interest of the public, and the interests of US foreign policy.

The study will be jointly sponsored and funded by the Deputy Under Secretary of Defense for Logistics and the Director of the Defense Logistics Agency. Dr. Delores M. Etter and Mr. John M. Stewart will serve as Co-Chairpersons of the Task Force. Mr. John Marcus, ODUSD (Logistics) will serve as the executive Secretary; and LTC T. Van Horn, USA, will serve as the DSB Secretariat Representative.

The Task Force will be operated in accordance with the provisions of P.L. 92-463, the "Federal Advisory Committee Act: and DOD Directive 5105.4, "The DOD Federal Advisory Committee Management Program." It is not anticipated that this Task Force will need to go into any "particular matters" within the meaning of Section 208 of Title 18, U.S. Code, nor will it cause any member to be placed in the position of acting as a procurement officer.

This Task Force should provide an interim report in October 1997 and a final report in early 1998.

[Signed)

R. Noel Longuemare  
Acting Under Secretary of Defense  
(Acquisition and technology)

# Appendix B

## Task Force Members and Advisors

### Members

Prof. Delores M. Etter *	Mr. Alan J. McLaughlin
<i>University of Colorado, Co-Chair</i>	MIT/LL
Mr. John M. Stewart *	Gen Bernard P. Randolph, USAF (Ret) *
<i>McKinsey and Co., Co-Chair</i>	TRW
MG Thomas B. Arwood, USA (Ret)	Mr. Richard L. Rumpf
<i>Consultant</i>	<i>Rumpf Associates</i>
LtGen James A. Brabham, USMC (Ret)	Gen William G. Tuttle, USA (Ret),
<i>Consultant</i>	<i>Logistics Management Institute</i>
Mr. Thomas A. Brancati	Dr. Herbert S. Winokur, Jr.
<i>Retired CEO, Whitaker Corp.</i>	<i>Capricorn Management, G. P.</i>
Mr. Mercade A. Cramer, Jr.	Mr. John M. Wright,
<i>Retired CEO, Vitro Corp.</i>	<i>Raytheon Texas Instruments Systems</i>
Mr. Gordon R. England *	Mr. Mike Turner
<i>General Dynamics</i>	<i>ADUSD(L)/M&amp;DM, Executive Secretary</i>
MG Paul L. Greenberg, USA (Ret),	CDR Dave Norris, USN
<i>National Defense Preparedness</i>	<i>DSB Secretariat</i>
<i>Association</i>	

(\*Member DSB)

### Advisors

Mr. George Barchuk	Mr. Stephen Leacy
<i>HQ USMC</i>	<i>Department of Commerce</i>
Mr. Jack Blackway	Mr. Robert Maggi
<i>DLA</i>	<i>Department of State</i>
Mr. David Boyd	Mr. Marion Oliver
<i>Department of Justice</i>	<i>DASN/C4I</i>
Mr. Tom Brown	Mr. Val Truumees
<i>HQ AFMC/LGID</i>	<i>DTSA</i>
Ms. Martha Caswell	Ms. Lynda Waring
<i>GSA</i>	<i>HQAMC/LGI</i>
Mr. Paul Davies	Mr. Kelly Wilson
<i>NAVSUP</i>	<i>Department of Treasury</i>
Ms. Regina George	Ms. Nancy Wong
<i>HQDA/DCSLOG</i>	<i>GSA</i>
Ms. Ruth Hill	Col George M McVeigh Jr
<i>HQAF/ILSP</i>	<i>USAF (Ret), Support Contractor</i>
Mr. Roy Howell	
<i>DRMS-USD</i>	

# Appendix: C

## Demilitarization Code Definitions

Code	Explanation
A	<b>NON-MLI/NON-SLI</b> --Demilitarization not required.
B	<b>MLI (NON-SME)</b> --Demilitarization not required. Trade Security Controls (TSCs) required at disposition.
C	<b>MLI (SME)</b> -- Remove and/or demilitarized installed key point(s), as prescribed in DODM 4160.21-1, or lethal parts, components, and accessories.
D	<b>MLI (SME)</b> -- Total destruction of item and components so as to preclude restoration or repair to a usable condition by melting, cutting, tearing, scratching, crushing, breaking, punching, neutralizing, etc. (As an alternate, burial or deep water dumping may be used when coordinated with the DOD Demilitarization Program Office.)
E	<b>MLI (NON-SME)</b> -- Additional critical items/materiel determined to require demilitarization, either key point or total destruction. Demilitarization instructions to be furnished by the DOD Demilitarization Program Office.
F	<b>MLI (SME)</b> -- Demilitarization instructions to be furnished by the item/technical manager.
G	<b>MLI (SME)</b> -- Demilitarization required - AEDA. Demilitarization, and if required, declassification and/or removal of sensitive markings or information, will be accomplished prior to physical transfer to a DRMO. This code will be used for all AEDA items, including those, which also require declassification and/or removal of sensitive markings or information.
P	<b>MLI (SME)</b> -- Security Classified Item -- Declassification and any additional demilitarization and removal of any sensitive markings or information will be accomplished prior to accountability or physical transfer to a DRMO. This code will not be assigned to AEDA items.
Q	<b>SLI -- Strategic List Item</b> -- Demilitarization not required. SLI are non-MLI and are controlled by the U. S. Department of Commerce through the Export Administration Regulation (EAR) and indicated on the Commerce Control List (CCL). Each CCL entry is preceded by a four-digit Export Control Classification Number (ECCN) and those ECCNs ending in the letter "A" or "B" are defined as strategic list items. These items are subject to Import Certification and Delivery Verification (IC/DV) control and other Trade Security Controls



# **Appendix: D**

## **Acronyms**

### **A**

AADPA	American Defense Preparedness Association
ADUSD (L)	Assistant Deputy Under Secretary of Defense (Logistics)
AECA	Arms Export Control Act.
AF	Air Force
AFMC	Air Force Materiel Command
AIA	Aerospace Industry Association

### **C**

C4I	Command, Control, Communications, Computers and Intelligence
CCL	Commerce Control List
CCLI	Commerce Controlled List Items
CIA	Central Intelligence Agency
CINC	Commander in Chief

### **D**

DA	Department of the Army
DASN	Deputy Assistant Secretary of the Navy
DCS	Direct Commercial Sales
DCAA	Defense Contract Audit Agency
DCSLOG	Deputy Chief of Staff Logistics
DIA	Defense Intelligence Agency
DOD	Department of Defense
DOS	Department of State
DRMO	Defense Reutilization and Marketing Offices
DRMS	Defense Reutilization and Marketing Service
DSCA	Defense Security Cooperation Agency (formerly Defense Security Assistance Agency)
DSB	Defense Science Board
DTSA	Department Technology Security Administration

### **E**

EAR	Export administration Regulation
ECCN	Export Control Classification Number

## *F*

FAA	
FBI	Federal Bureau of Investigation
FMS	Foreign Military Sales

## *G*

G.P.	General Partnership
GSA	General Services Administration

## *H*

HAI	Helicopter Association International
HQ	Headquarters
HQDA	Headquarters Department of the Army

## *I*

IC/DV	Import Certification/ Delivery Notification
ILSP	Installations and Logistics/ Supply

## *L*

LESO	Law Enforcement Support Office
LMI	Logistics Management Institute

## *M*

MIT/LL	Massachusetts Institute of Technology/ Lincoln Laboratory
MLI	Munitions List items
MOU	Memorandum of Understanding

## *N*

NAACS	National Association of Aircraft and Communications Suppliers
NAVSUP	Navy Supply

## *R*

Ret      Retired

## *S*

SAO      Security Assistance Officer  
SASP      State Agencies of Surplus Property  
SLI      Strategic List items  
SME      Significant Military Equipment

## *T*

TSC      Trade Security Controls

## *U*

USAMC      United States Army Materiel Command  
USC      United States Code  
USD(A&T)      Under Secretary of Defense (Acquisition and Technology)  
USN      United States Navy